

IT IS INDEED GREAT NEWS for any economy, if there is a sustained spurt in demand for excavators, backhoe and wheeled loaders, dumpers/tippers, and pick-and-carry cranes among others. If you are wondering what these are, well, these and other similar specialised automotive equipment constitute what is known as ECE or earthmoving and construction equipment industry. A growing demand for such equipment

2016 after a downcycle that lasted for four years. It grew by 43 per cent in 2016 compared to 2015. But even after registering a strong growth, the industry is yet to reach the peak it had attained in 2011 in terms of volumes,” says Vipin Sondhi, managing director and chief executive officer of JCB India, one of the leading manufacturers of ECE equipment. “You can say one out of two ECE sold in India is a JCB machine,” adds Sondhi.

About the four-year downturn for ECE industry, Sondhi says: “The

overall economic slowdown and delays in infra projects led to low confidence amongst builders, developers, contractors and other stakeholders, resulting in delay in construction projects. These coupled with land clearance issues and acquisition delays affected the overall demand for construction equipment in the four-year period starting 2011.” But things changed after May 2014, when the new government under Prime Minister Narendra Modi came to power. This reflected in the num-

INFRASTRUCTURE GROWTH: SECOND INNINGS

The recent turnaround in the ECE industry is helping India's growth story, but sustaining the momentum is key

By Ashish Sinha & Arshad Khan

means only one thing — that the infrastructure sector is on an overdrive; that construction activities are in full swing; and that new roads, ports, canals, flyovers, railway tracks, buildings and related infrastructure projects are underway. For the last 18 months or so, it's been true for India.

The Indian ECE industry is witnessing revival and an upswing after a gap of four years. It is expected to virtually double to \$5 billion or more by FY19-20 from its current size of around \$2.8 billion. “The ECE industry showed a significant growth in



bers too. "From 36,798 units sold in 2015, the ECE market increased to 52,462 units, showing an increase of about 43 per cent in seven leading product categories," says Sondhi. Escorts Construction Equipment, CEO, Ajay Mandahr, agrees with Sondhi. "The primary reason for the growth is the kind of investment that is going into the infrastructure sector. In the next five years, the government is talking about investing \$450 billion. In this budget alone, it has outlined its plan to invest Rs 3.96 lakh crore on infrastructure of which 70 per cent will go in power, road and urban infrastructure. This is good news for ECE industry," says Mandahr.

According to Sorab Agarwal, Executive Director, Action Construction Equipment (popularly known as ACE), currently most of the ECE industry is witnessing reasonable utilisation of installed capacities which has climbed back to around 60-80 per cent. "We are

already witnessing improvement in the roads, railways and mining segments which has led to stabilisation of numbers in the ECE industry. We are very bullish that from here onwards the ECE industry should witness at least 15-20 per cent growth every year, over the next four-five years," adds Agarwal.

Pavithra Ponniah, Vice President, ICRA, qualifies the growth witnessed by the ECE industry. "The calendar year (CY)16 was a good year for the industry. Since November 2015, the industry is witnessing a recovery, starting with excavator, then backhoes, the demand has picked up. CY16 witnessed a 30-35 per cent growth and did a business of 61,000 units. CY17 will grow at 13-17 per cent. In CY18, the industry will grow at 8-10 per cent, while in CY19, the growth outlook is around 2 per cent and the market size would have reached its peak at 70-72,000 units. There will be some pre- and post-election impact as well," says Ponniah.

Understanding ECE

Broadly, there are four arms of the earth and construction equipment industry: earth-moving equipment, material handling cranes, concrete equipment, and road building equipment. The earth-movers form the largest segment of the construction equipment sector in India. Such equipment, including backhoe



IN DEPTH / CORPORATE

loaders and excavators, primarily find use in mining and construction. Road building equipment are used in the various stages of road construction. Widely used ones are excavators, diggers, loaders, scrapers, bulldozers, etc. Most of the technology leaders such as Case, Caterpillar, Hitachi, Ingersoll-Rand, JCB, John Deere, Joy Mining, Komatsu, Liebherr, Poclain, Terex and Volvo are present in India as joint-venture companies, or have set up their own manufacturing facilities (or marketing companies). Globally, leasing is the most popular way of obtaining new equipment and constitutes around 45-55 per cent of construction equipment market in the US. In India, however, equipment leasing is not as widespread; it constitutes only around 5-8 per cent of construction equipment market.

D. K. Vyas, CEO, Srei Equipment Finance (SEFL) says that every third ECE equipment is financed by the company. As a single entity, SEFL is one of the largest players followed by banks such as HDFC, IndusInd and

others. Vyas recounts how Srei established itself over the past two decades by working with smaller and local contractors in the hinterland by not only financing their equipment needs but by partnering with their customers and helping them grow in size. "We have maintained a 30 per cent share in the ECE finance market which is a tough task. There are over 1,000 construction companies in the country and we work with all of them," says Vyas. The construction equipment typically constitute around 20-22 per cent of the overall project cost when it comes to road projects. Srei has disbursed loans worth over Rs 8,000 crore in the nine-month period ended December 2016. According to Vyas, the ECE industry is fragmented with top six manufacturers contributing around 70-75 per cent of the total sales. And SEFL finances 90 per cent of the construction and mining equipment placing it in a strong position to reap the benefits of this expected growth.

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CEO, Escorts Construction Equipment

tion projects, railways, airports, affordable housing projects are driving the growth of ECE industry which in turn is helping us grow,” says Vyas. Apart from Srei, several banks are also providing easy financing solutions for ECE industry.

Growth Driver

So what is fuelling the growth of ECE industry? For starters, under the NDA government, the total length of the national highways is expected to cross 200,000 km in the next five years from around 96,260 km (till November 2016). This expansion includes around 25,000 km of roads under the Bharatmala project and declaration of around 75,000 km of state highways as national highways.

The Pradhan Mantri Gram Sadak

Yojna (PMGSY) has been a success too. From 2014-15 to date, around 1.4 lakh km of roads have been constructed which is significantly higher than the length of roads constructed under PMGSY during the previous three financial years. Then around 3,500 km of new railway lines are expected to be constructed in the current financial year up from 2,800 km constructed in FY16-17. States such as Bihar, Gujarat, Madhya Pradesh, Maharashtra, Karnataka, Rajasthan, Uttar Pradesh and West Bengal have planned several projects. In the last financial year, 133 km of roads/day were completed under PMGSY compared to 73 km of roads/day in 2011-2014 period. For executive road projects, the budgeted outlay for national highway in FY18 is now pegged at Rs 64,900 crore against the planned allocation of Rs 58,000 crore in the previous year.

Says Agarwal of ACE, “The demand for construction equipment as a percentage of the total cost of the project is the highest for road construction projects and currently the government is keen on expanding and improving the road infrastructure in the country. Hence, in the current scenario, maximum revenue growth for equipment companies is being driven by the road sector.” Sondhi of JCB says that with government giving significant attention to roads and highways, the activity in the infra space is expected to continue and rise. “We expect 10-12 per cent growth in the coming years,” adds Sondhi. For Escorts Construction Equipment, north and south are the number one market in the country, says Mandahr. “West is catching up. North and south contribute around 55-60 per cent, while east India is less than 20 per cent. Different products have different uses and sales come up on the development work going on that region,” he says. **BW**

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